# Kyndryl Holdings, Inc. Q1 2026 Transcript

**Speaker 1:** Good day, and thank you for standing by. Welcome to the Kindrel Fiscal First Quarter twenty twenty six Earnings Conference Call. At this time, all participants are in a listen only mode. After the speakers' presentation, there will be a question and answer session. To ask a question during the session, you will need to press 11 on your telephone.

**Speaker 1:** Please be advised that today's conference is being recorded. I would now like to hand the conference over to your first speaker today, Lori Chapman, Global Head of Investor Relations. Please go ahead.

**Speaker 2:** Good morning, everyone, and welcome to Kindrel's earnings call for the first fiscal quarter ended 06/30/2025. Before we begin, I'd like to remind you that our remarks today include forward looking statements. These statements are subject to risk factors that may cause our actual results to differ materially from those expressed or implied. These forward looking statements speak only to our expectations as of today. For more details on some of these risks, please see the Risk Factors section of our annual report on Form 10 ks for the year ended 03/31/2025.

**Speaker 2:** Also, in today's remarks, we refer to certain non GAAP financial metrics. Corresponding GAAP metrics and a reconciliation of non GAAP metrics to GAAP metrics for historical periods are provided in the presentation materials for today's event, which are available on our website at investors.kindrell.com. With me for today's call are Kindle's Chairman and Chief Executive Officer, Martin Schroeder and Kindle's Chief Financial Officer, David Weisner. Following our prepared remarks, we will hold a Q and A session. I'd now like to turn the call over to Martin.

**Speaker 2:** Martin?

**Speaker 3:** Thank you, Lori, and thanks to each of you for joining us. In the first quarter, we made significant progress on our strategic initiatives, continued to drive margin expansion and delivered a substantial increase in earnings. We're reaffirming our outlook for fiscal twenty twenty six and advancing well toward our fiscal twenty twenty eight objectives. On today's call, I'll update you on how we're executing our differentiated growth strategy. I'll also highlight how our leadership position and investments in innovation are driving demand for our services and powering sustainable profitable growth.

**Speaker 3:** David will provide more detail on our recent financial results and our outlook. I'm very enthusiastic about our progress and our outlook because of the 39% year over year increase in our adjusted pretax income in Q1, because of the continued growth in Kindle Consult revenue, our ongoing collaboration with cloud hyperscalers and other leading technology partners, and the expanded capabilities we're bringing to the market related to cloud, cybersecurity, AI, and Kindle Bridge, resulting in record high customer satisfaction scores. Q1 revenue declined in constant currency as we continued to drive progress on our accounts initiative. In fact, all of the Q1 revenue change was attributed to our actions to address eight focus accounts where we reduced our revenue by half and significantly increased our gross margin over the last year. We also saw some deals that we had targeted for Q1 move out of the quarter.

**Speaker 3:** Throughout our global operations, we're leveraging our leadership in essential mission critical services and benefiting from the investments we've made in our skills, innovation and alliances. By focusing on delivery excellence, automation and insights through Kindle Bridge and expanded technology partnerships, we've continued to achieve above market growth in Kindrel Consult, win new logos and add new scope to our customer

relationships. Our progress is driving strong earnings growth and gives us the flexibility to regularly return capital to shareholders through our share repurchase program. And there's a reason why we're winning. We're delivering innovation and best of breed solutions.

**Speaker 3:** Our expertise in both running and transforming is unmatched and differentiates us among other IT service providers and consulting firms. And we're uniquely positioned as an innovation partner at the center of secular trends from AI adoption and cloud migration to managing increasingly complex hybrid IT estates, addressing skill shortages, and building cyber resiliency, all of which are fueling our signings. Over the last twelve months, our signings have increased 44 in constant currency, our book to bill ratio is above 1%, and the projected pre tax margin on our signings continues to be in the high single digits. Our performance in the quarter was once again led by Kindrel Consult and hyperscaler related revenues, as well as strong signings in The US. Over the last twelve months, Kindrel Consult revenue has grown 32% in constant currency and is now running at an annual pace of more than $3,000,000,000 Hyperscaler related revenue nearly doubled from a year ago to $400,000,000 in Q1 and is progressing well toward our $1,800,000,000 fiscal twenty twenty six target.

**Speaker 3:** We've been executing a highly effective strategy to build our capabilities, skills, ecosystem, and innovation to drive profitable growth with the three Alliances, Advanced Delivery, and Accounts, plus Kindrel Consult and Kindrel Bridge at the center. These initiatives are an integral part of how we operate and create value every day. Through this strategy, we're showing up differently for our customers and partners, demonstrating our competitive advantages and unlocking multiple avenues for growth. By harnessing a range of technologies to accelerate digital innovation, Kindrel meets more customer needs with our alliance partners. Being an expert ecosystem orchestrator, collaborating closely with leading technology

providers is why we're essential to our customers' future.

**Speaker 3:** We're regularly and selectively expanding our portfolio of technology alliances to meet the evolving needs of our customers. For example, we recently announced a new partnership with Databricks, a leading AI and data services provider, to enable the delivery of AI at scale and further modernize enterprise IT estates. By infusing AI and automation into how we deliver our mission critical services, we're getting even better at what we do for our customers every day. We deeply understand our customer systems. Combined with our alliances, this enables us to design, implement, and manage multi vendor solutions focused on business outcomes.

**Speaker 3:** Kindrel Consult leverages our leadership position in mission critical managed services. Our credibility, access, and long standing customer relationships make it seamless for us to move into more advisory engagements and expand our presence throughout our customers' technology stacks. We expect Kindrel Consult to continue growing double digits, and we continue to invest in our people so we have the business and technical skills to meet customer demand. Fueling both mission critical services and Kindrel Consult growth is our AI powered Kindrel Bridge operating platform. It combines operational data, agentic AI, and machine learning with our expertise to deliver actionable insights, innovation, and operational efficiency across our customers' entire tech stack.

**Speaker 3:** As a result, Kindred Bridge helps us integrate and manage customer IT environments, enabling us to expand our services and win new business. And a common theme here is the enduring demand for IT modernization, including the need for large enterprises to address tech debt. For us, modernization encompasses all six of our global practices and is connected with our alliance partners' technologies. We've built solutions frameworks that are tailored to meet market needs from design through delivery. Our

customers rely on us for cost effective solutions to complex IT challenges.

**Speaker 3:** We're partnering with them to align their business and technology strategies to drive hybrid IT modernization that provides a strong return on investment. Among each of these growth factors, we're demonstrating our capabilities, unlocking our competitive advantages, and driving demand for our services with existing and new customers. I want to double click on one of our growth factors, Kindle Consult, and highlight why it's gained so much momentum and how it's positioned for long term success. As businesses increasingly prioritize initiatives like adopting AI and deploying new security solutions and migrating to the cloud, they're turning to us to navigate this dynamic landscape with their advisory and implementation expertise. What differentiates Kindle Consult is our infrastructure first mindset in how we approach IT evolution and complex digital transformations.

**Speaker 3:** We start by ensuring that our customers' IT foundation is not only strong, but also adaptable and reliable. This approach allows us to help our customers scale and innovate effectively while tackling challenges like security, data processing, and regulatory compliance. This is especially true for our AI consulting engagements and how we enable our customers to turn AI pilots into scalable solutions. With the investments we've made in AI and the recently announced Kindrel Agentic AI framework, we help customers design, implement, and run AI models in the same way that we help enterprises design, build, manage, and modernize mission critical information systems. For example, with this framework, we're working hand in hand with the national government to deploy AgenTik AI to enhance citizen experiences and improve public service across major sectors like transportation, education, and healthcare.

**Speaker 3:** Our holistic, customizable tools give us confidence in our ability to capitalize on the significant multi year opportunity associated with AI adoption. Our recent investments in technology hubs in England, France, and Singapore are great examples of how we're

innovating to support our customers' IT futures by accelerating their AI adoption and digital transformation. Our dedicated AI private cloud in Japan, built in collaboration with Dell and NVIDIA, is allowing organizations to develop, test, implement AI services in a security rich environment. And we recently announced a new virtual Kindle Microsoft acceleration hub that will enable AI driven industry specific development and modernization. By working closely with customers on AI, cybersecurity, cloud migration, and other modernization initiatives, Kindredle Consult has become a powerful growth engine for us, and this revenue stream is valuable both because of the margins directly associated with it and because of the ongoing managed services work that accompanies so many IT modernization assignments.

**Speaker 3:** To be more specific, I want to highlight two customers where our expanded capabilities, technology alliances, and Kindrel Consult are enabling us to provide a broader scope of services and to generate revenue growth for Kindrel. For a travel sector customer for whom we've managed their IT estate for years, we're now modernizing their infrastructure using state of the art technologies, providing efficiencies, enhanced security, and sustainability benefits. In collaboration with AWS, we're migrating select workloads to the cloud and running the environments that connect the customer's legacy and cloud systems. We're also optimizing and further automating our customer's network resiliency solution. And as a result, our annual revenues related to this account are growing by more than 30%.

**Speaker 3:** And for a large company that wasn't a customer of ours just eighteen months ago, our mission critical expertise and solutioning helped us add this firm to our customer roster with an 8 figure a year contract. And the quality of our services and the innovation we're bringing to bear have allowed us to expand our scope so that our annual revenue from this account will be three times what it was originally. The takeaway here is that Kindrel, as a deeply trusted scaled services provider with differentiated capabilities across hybrid IT landscapes,

can help large enterprises modernize their complex IT estates. And we do this in ways that present significant growth opportunities for us. Our expanding scope in large and mid sized accounts is fueling growth in key financial metrics for fiscal twenty twenty six and beyond.

**Speaker 3:** As a reminder, by fiscal twenty twenty eight, which for us begins less than twenty months from now, we expect to deliver more than $1,000,000,000 in adjusted free cash flow, we expect to deliver more than 1,200,000,000 in adjusted pretax income, and achieving these earnings and cash flow targets only requires us to reach the mid single digit revenue growth that we'll progress toward by fiscal twenty twenty eight. With strong conversion of our earnings to free cash flow, we're optimizing our capital allocation by investing in organic growth opportunities, returning capital to shareholders through our share repurchase program and occasionally pursuing tuck in acquisitions. Also, with our free cash flow adjustments having become minimal as anticipated, you'll hear us talking about free cash flow rather than adjusted free cash flow. And importantly, our fiscal twenty twenty six outlook is consistent with our expected growth trajectory from fiscal twenty twenty five to fiscal twenty twenty eight. As David will discuss, we're expecting to generate approximately $550,000,000 in free cash flow, grow our adjusted pre tax earnings by more than two forty million dollars to at least $725,000,000 and generate positive 1% constant currency revenue growth this fiscal year.

**Speaker 3:** We expect our revenue growth to accelerate from Q1 to Q2 and further in the second half. Keep in mind, two thirds of our P and L this year will be derived from our higher margin post spin signings, the first time that a significant majority of our revenue is coming from contracts that we signed as independent Kindrel. In short, we remain committed to our progress and the multiple avenues of revenue and profit growth that we're capitalizing on as we help our customers achieve their IT and business objectives. And with that, I'd like to pass the call over to David. David?

**Speaker 4:** Thanks, Martin, and hello, everyone. Today, I'd like to discuss our first quarter results, the solid margins at which we're signing customer contracts, and our outlook for fiscal year twenty twenty six. In the quarter, revenue totaled $3,700,000,000 up slightly from the prior year quarter on a reported basis and a 2.6% decline in constant currency, primarily reflecting our focus accounts initiative. We continue to gain momentum in higher margin advisory services. Kindrel Consult revenues grew 30% year over year, which underscores how we're growing our share in this higher value add space.

**Speaker 4:** Aggregate signings were up 2% year over year and a fraction of a point in constant currency in Q1. Our latest 12 signings total $18,300,000,000 a 43% increase from the year earlier period and are 1.2 times our last twelve months revenue. We saw a particularly strong Q1 signings growth in our applications, data and AI, and cloud practices, reflecting strong demand for services in these domains. Our first quarter adjusted EBITDA was $647,000,000 and our adjusted EBITDA margin was 17.3%, up two forty basis points year over year. Adjusted pre tax income grew 39% to $128,000,000 and our adjusted pre tax margin increased 100 basis points year over year.

**Speaker 4:** Our financial progress continues to reflect our strategic achievements, leveraging technology alliances, stepping away from empty calorie revenues, fixing focus accounts, growing the consult portion of our business, driving efficiency throughout our operations, and positioning Kindrel to meet our customers' future IT needs. Our three A's initiatives continue to be an important source of margin expansion and value creation for us and remain integral parts of our operational and go to market approach. Through our alliances, we generated $400,000,000 in hyperscaler related revenue in the first quarter. This puts us on track to deliver $1,800,000,000 of hyperscaler related revenue this year, a 50% increase from our fiscal twenty twenty five total. Through our advanced delivery initiative powered by Kindle Bridge, we

continue to drive automation throughout our delivery operations, incorporate more technology into our offerings, reduce our costs, and increase our already strong service levels.

**Speaker 4:** It's a win win for Kindrel and our customers. We've been able to free up thousands of delivery professionals, and this is worth roughly a cumulative $825,000,000 a year to us, representing a $50,000,000 increase in our annual run rate this past quarter. Our accounts initiative continues to remediate elements of contracts we inherited with substandard margins. In the first quarter, we increased the cumulative annualized profit from our focus accounts by $25,000,000 to $925,000,000 I can't emphasize enough what an important source of sustainable value creation this has been for us. In short, our strategic progress continues to drive our earnings growth.

**Speaker 4:** Turning to our cash flow and balance sheet, as expected and similar to last year, our first quarter was a seasonal user of cash due to annual software and broad based incentive comp payments, and our free cash flow was at $222,000,000 outflow in the quarter. Our net capital expenditures were $97,000,000 We provided a bridge from our adjusted pre tax income to our free cash flow, as well as a bridge from our adjusted EBITDA to our free cash flow in the appendix. Importantly, our use of cash in the first quarter was what we anticipated and doesn't change our expectation of generating roughly $550,000,000 of positive free cash flow this year. Also, as Martin mentioned, our cash flow adjustments have become immaterial as spin related costs have subsided. So we're now highlighting free cash flow rather than adjusted free cash flow.

**Speaker 4:** We show the calculation of both metrics in our earnings materials. Under the share repurchase authorization we announced in late November, we bought back 1,800,000.0 shares of our common stock in the quarter at a cost of $65,000,000 As of June 30, we have $141,000,000 of repurchase capacity remaining under our share repurchase authorization. Our

financial position remains strong. Our cash balance at June 30 was $1,500,000,000 Our debt maturities are well laddered from late twenty twenty six to 02/1941, and we had no borrowings outstanding under our revolving credit facility. Our target has been to keep net leverage below one times adjusted EBITDA, and we ended the quarter well within our target range at 0.6 times.

**Speaker 4:** We are rated investment grade by Moody's, Fitch and S and P. On capital allocation, our top priorities are to maintain strong liquidity, remain investment grade, reinvest in our business, and regularly buy back stock. I remain enthusiastic about how we continue to position Kindrel for future revenue margin and profit growth, not only by growing signings this past year, but also by commanding attractive margins on our signings. The June was a continuation of our signing business with healthy margins. Throughout fiscal twenty twenty three, 'twenty four and 'twenty five, and now into the early part of fiscal twenty twenty six, we've signed contracts with projected gross margins in the mid 20s, and projected pre tax margins in the very high single digits.

**Speaker 4:** Therefore, as our business mix increasingly shifts toward more post spin contracts, you'll see significant margin expansion in our reported results. We've again included a gross profit book to bill chart that illustrates how we've been creating and capturing value in our business. With an average projected gross margin of 26 percent on our $18,000,000,000 of signings over the last twelve months, we've added over $4,500,000,000 of projected gross profit to our backlog. Over the same period of time, we've reported gross profit of $3,100,000,000 This means we've been adding more gross profit to our backlog than our contracted book of business has been producing in our P and L. Having a gross profit book to bill ratio above one, at 1.5 over the latest twelve months, demonstrates how we're growing what matters most, the expected future profit from committed contracts.

**Speaker 4:** It also highlights the quality of our post spin signings. And with our gross profit

book to bill ratio having been consistently above one, that means we've been consistently growing our gross profit backlog over the last three years. As we've said previously, our core financial goals are to continue to grow our revenue, expand our margins, increase our earnings and generate free cash flow. Our outlook for fiscal twenty twenty six is for revenue to grow 1% in constant currency, with the second half being stronger than the first. Within that, we expect Kindrel Consult revenue to again grow double digits.

**Speaker 4:** We continue to estimate that our adjusted EBITDA margin in fiscal twenty twenty six will be approximately 18%, an increase of roughly 130 basis points versus fiscal twenty twenty five. We also continue to see opportunities to drive efficiencies in our operations, both through advanced delivery and in SG and A functions. And our outlook for adjusted pre tax income continues to be at least $725,000,000 This means growing our adjusted pre tax income by at least $243,000,000 and increasing our adjusted pre tax margin by roughly 150 basis points year over year. As a reminder, it also means we're calling for a third straight year of substantial margin expansion, and it keeps us right on track to generate high single digit adjusted pre tax margins in fiscal twenty twenty seven and fiscal twenty twenty eight. We've hedged a majority of our fiscal twenty twenty six pretax income exposures to currency movements, so exchange rates are expected to have only a limited impact on adjusted EBITDA and adjusted pretax income this year.

**Speaker 4:** Looking at the second quarter in particular, we're expecting our year over year revenue growth to accelerate from the first quarter to the second. And we're expecting our adjusted pre tax income to be similar to Q1 and nearly three times the $45,000,000 we reported in last year's second quarter. Our fiscal twenty twenty six outlook implies we'll generate roughly 35% of our adjusted pre tax income in the first half of the year, compared to 28% in the first half last year. On the topic of cash flow, for the year as a whole, we're forecasting roughly

100 conversion of adjusted pre tax income less cash taxes into free cash flow. With cash taxes of roughly $175,000,000 this implies free cash flow of approximately $550,000,000 We also project roughly $700,000,000 of net capital expenditures and about $700,000,000 of depreciation expense.

**Speaker 4:** From a timing perspective, while Q1 was a significant user of cash due to annual software and incentive compensation payments, subsequent quarters will be more favorable. Over the medium term, we remain committed to delivering significant margin expansion and generating free cash flow growth. We

**Speaker 5:** have

**Speaker 4:** a solid game plan to drive our strategic progress, and this game plan starts with the steps we've already taken to expand our technology alliances, realize the numerous growth opportunities available to us, manage our costs, and earn a return on all of our revenues. To wrap up, our financial progress is a direct result of our strategic positioning and relentless execution. We have powerful momentum as a leading provider of mission critical enterprise technology services, driving thought leadership in our space, delivering modern hybrid IT solutions, growing our Kindle Consult presence rapidly, achieving top tier service levels and customer satisfaction scores, and operating at the heart of secular trends that will fuel customer demand for our services for the foreseeable future. So let me end by again thanking the tens of thousands of Kindrels around the world who are powering our progress. With that, Martin and I would be pleased to take your questions.

**Speaker 1:** Thank you. At this time, we will conduct the question and answer session. As a reminder, to ask a question, you'll need to press star, one, one on your telephone and wait for your name to be announced. Our first question comes from the line of Tien Tsin Huang of

JPMorgan. Your line is now open.

**Speaker 6:** Hi, thank you. Good morning, guys. I just want to ask on the top line, if you don't mind, just on first quarter revenue. How did that come in versus planned? And can you give us a little bit more detail on the growth cadence for the rest of the year?

**Speaker 6:** And particularly interested in the where the exit rate might be for fiscal twenty twenty five year to the extent that you have visibility? Thank you.

**Speaker 3:** Yes, sure. Thanks, Tien Tsin, and thanks for joining this morning. Look, we have good momentum in the two growth vectors that we've been talking about and we continue to talk about to drive growth for us. Consult, as you saw, grew well in the quarter. It's got a good twelve month trailing book to bill ratio, so we see continued growth there.

**Speaker 3:** And our alliance activity, which was $400,000,000 in the quarter, positions us well to deliver on the 1,800,000.0 which we thought we could get done. We still feel very strongly we can, and that's a 50% increase from last year. Remember, that business was basically zero when we came out of spin. So we were able to build a good, solid billion dollar business in a pretty short period of time. Overall, the book to bill on a trailing twelve month basis supports growth as well.

**Speaker 3:** So as we and I should say, importantly, our pipeline this year, as we sit here today versus where we were at this time last year, our pipeline is both well ahead of last year's and a bit less concentrated. You may remember that we had some pretty substantial deals signed last year. So we have an overall pipeline that is larger, but not because of any one or two deals. And so when I think about your question around what does the year look like, we'll accelerate from two into two from where we finished one. And then we have a fairly easy compare in three.

**Speaker 3:** And then again, we'll finish overall at where we guided, which was 1%. So I feel like we're pretty well positioned here. I'm not at all worried about what we see in the pipeline. Some of the deals that we thought would have closed are closing now and will continue to close. So I feel like we're pretty well positioned.

**Speaker 6:** Thank you, Martin.

**Speaker 2:** Operator, next question, please.

**Speaker 1:** One moment for our next question. Our next question comes from the line of Ian Zaffino of Oppenheimer. Your line is now open.

**Speaker 5:** Hi, great. Thank you very much. I'm going to hop on a little bit late, but I'm sorry this was discussed. But on some of the focus accounts, have you noticed any trends among those focus accounts that kind of have been pushed out? And in your discussions, what is your confidence level of those signings actually being executed in this quarter?

**Speaker 5:** Or is this something where things get pushed out more than a quarter or two? So basically, was this kind of a tiny issue or is it a couple of weeks or is this really a matter of months and quarters? And then also the follow-up would just be on buybacks. How do you think about buybacks? You have a lot of free cash flow coming your way in kind the near to medium term.

**Speaker 5:** So would you defend your stock? How do you feel about that? Thanks.

**Speaker 3:** So let me start thank you, Ian. Let me start on focus accounts first. Remember, when we started talking about this, we said it was very much a profit focused part of our strategy, and we thought we could, in the medium term, deliver $800,000,000 of benefit. We have since raised that a number of times, and what we see today on focused accounts is that

we will deliver $925,000,000 of cumulative benefit. Now, having said all that, as you would imagine, the discussions happen because we are bringing innovation, We've invested in our capabilities.

**Speaker 3:** We show up with the ecosystem that really matters and our alliance partners. And we've built a platform that brings real innovation in the form of Kendra Bridge. And all of that I go through because there is a complexity to repositioning and reimagining these relationships. We made a ton of progress in the first three and a half years, and we will continue to make progress in our focused accounts. But you have to land it in a deal, in relationship that is value creating for customers, that's value creating for us.

**Speaker 3:** And sometimes there's a third party involved as well. So bringing all of that together does make it a little bit sort of tricky to try to predict when these might close. But having said all that, as an example, one of the focused account transactions that we were working on in the first quarter, think closed like 23 after the quarter ended. So I would put it into the fast start for 2Q. So that's not all of them.

**Speaker 3:** We didn't finish all in twenty three minutes. That's just sort of the nature of what happens with focused accounts. As long as we continue to bring innovation, we continue to deliver great service, which we do, and that's part of why our customers love what we do for them, we know the most about their infrastructure and their apps and how it all fits together. So we deliver great service. We bring innovation.

**Speaker 3:** We continuously invest in new capabilities to allow them to reposition themselves for the future and modernize their infrastructure. We'll continue to make progress on focused accounts, but again, picking any when any one deal may close is a little bit harder. You want to add anything, David?

**Speaker 4:** Just on the buybacks question, we repurchased $65,000,000 of stock in the quarter. And since we've launched the program in November, we've repurchased almost 2% of our shares outstanding. As we go into this quarter, we'll look at our cash flow, we'll look at the share price, we'll look at market conditions, we'll look at other factors, and make a decision about how much stock to buy back. But we have over $140,000,000 of available capacity under the existing authorization. And you're absolutely right, we're moving into the cash flow generating portion of the year for us.

**Speaker 4:** So we will have additional cash flow to deploy.

**Speaker 2:** Thank you, David. Operator, next question please.

**Speaker 1:** One moment for our next question. Our next question comes from the line of Divya Goyal of Scotiabank. Your line is now open.

**Speaker 7:** Good morning, everyone. I wanted to get a little bit more color on the margins. So there has been a notable margin expansion as you detailed during your prepared remarks, but I wanted to understand if you could or if you could elaborate on beyond account renegotiation, which is driving up the margins or renewals and your consulting engagements, what could be some of the other catalysts that we could potentially see for margin expansion as the company continues to mature?

**Speaker 3:** Yeah, yeah, thanks, Divya. So I'll point to a few things. First, as you said well, Kindrel Consult is accretive to our margins And obviously, our account focus activity has been helpful for our margins as well. But what I'd add to that is the data we share every quarter on the gross profit book to bill that's going in. And what's important here is that we continue to capture the value that we're creating with our customers.

**Speaker 3:** And it's, I think, evidenced by both the high single digit margins that we share and also the growing and greater than one gross profit book to bill. But there are few other things to keep in mind. One is that over time, because nature of this business, over time, more and more of our P and L is determined by what we've put in, by the margins I just described, and obviously less and less from what we inherited pre spin. Now, it takes a while, right? As we shared last year, last fiscal year, last fiscal year was our third fiscal year of being independent, and only half of our P and L at the time was determined by what we put in and half was still from pre spin activity.

**Speaker 3:** This year, that improves again to 67%. And every quarter, it gets a bit better. So by the time we get to the time frames that we talked about in our Investor Day when we laid out our triple, double, single and the double was obviously our profitability, part of that is driven by the fact that 90 plus percent of our P and L will be driven by our own margins that, again, we've shared on what we've put into the backlog. So there is a timing element of this that, because of the nature of this business, very powerful once we get far enough from the spin. Right now, we're still battling some of what we've inherited.

**Speaker 3:** And then secondly, I point to some other tailwinds. So as an example, in the first three and a half years, we've been subject to IBM software cost increases. It was $200,000,000 in the calendar years. But this year, it finishes after our third fiscal quarter, the end of the calendar year. So we get a $50,000,000 reduced software increase.

**Speaker 3:** Instead of having 200 in a fiscal year, which we've had the past three years, we only have 150 this fiscal year. So we get further from the spin. More of the P and L is determined by what we've put in and obviously shared with investors. And then we're subject to a few discrete things like we don't have the headwind from IBM software cost increases in the fourth quarter. That's all in what I'll call the cost and gross profit line.

**Speaker 3:** And then obviously, we've become more efficient in our SG and A. And so we've been able to reduce how much is consumed in overhead. So the profitability that we've driven, as you remember, a pretty substantial loss to 400 plus million last year and guiding to $725,000,000 another $245,000,000 increase on our at least guidance. The dollar cost increase is coming from a number of areas with more ahead of us. Given how we started this year and the guide we gave, which we still feel good about for this year, we are very well positioned for what we laid out in Investor Day, the triple double single.

**Speaker 7:** Thank you.

**Speaker 2:** Operator, next question, please.

**Speaker 1:** One moment for our next question. Our next question comes from the line of Jamie Friedman of Susquehanna. Your line is now open.

**Speaker 8:** Hi, Martin, David. Good connecting here and good start. So a couple questions. At a high level, Martin, are you articulating the opportunity of AI related technology transitions both for the company and for your clients? That's the first one.

**Speaker 8:** And then the second one is if you could just share how you feel about your visibility on the triple, double, single, especially relative to the trends in pretax margin on post spin signings as demonstrated in Slide 15 in the deck? So first one on AI and second one on visibility. Thank you.

**Speaker 3:** Sure, sure. Thanks. So let's start with AI. So AI represents opportunities for us in a number of areas. Obviously, Kindredell Bridge runs on AI, and it is our data and our IP that is allowing us to provide insights to our customers.

**Speaker 3:** It's allowing us to automate things and allow us to become much more efficient and

drive a higher quality in our delivery platform for our customer base. So there is very much both a cost element to AI for us, cost savings element for AI, and there's a revenue opportunity that Kindrel Consult takes advantage of in the insights that Bridge develops. So two ways that we benefit. Secondly, because of our deep knowledge that our engineers have of our customers' systems. And because of the role we play in their environments, our customers are looking to us for both consult and run help with all the things that AI means to them.

**Speaker 3:** So as an example, in the start of the AI journey, you spend a lot of time on data, you spend a lot of time on data architecture. And our practices in data applications and AI is creating capabilities to help them. Similarly, when you implement AI in the kinds of workloads that we run, mission critical kind of hearts and lungs, you have to be obviously very aware, very cognizant, and prepared for the cyber security risks that come with that, and importantly, the resiliency characteristics that are needed in order to maintain resiliency as you implement new things. So we are the deepest in our customers' environments. We know more about how their systems run.

**Speaker 3:** And so while Bridge is helping us reduce cost and deliver more efficiently, and it's helping identify some opportunities for our consulting, we also have our practices building capabilities and an ecosystem around data, around security, around resiliency, etcetera, etcetera, etcetera. In fact, you heard in our prepared remarks that while we've had partners like NVIDIA for a while and others, we added Databricks this past quarter, which is an up and comer, if you will, in how companies or our customer base is thinking about AI. So I think we're pretty well positioned to help customers with AI. Secondly, on your visibility to our triple double single. So a few things.

**Speaker 3:** The cash flow, and as you heard David comment in his prepared remarks, we landed cash about where we thought we would. It's a seasonal structure here in Kindrel. So first

quarter is an outflow and then the next nine months are inflows. That keeps us on track for the $5.50. And quite frankly, because of a unique tax position that we were put in from spin, our cash taxes over the next few years really won't grow much and our profits will grow dramatically.

**Speaker 3:** And that's part of what drives the triple is we will not have the cash tax outflows over the next few years that we experienced early on. Obviously, it requires that we double profits as we said we would, and we feel also very good about that. As I noted in my prior answer to Divya's question, this year was a great start on what is going to be another good year in profit dollar growth. And the phenomena that helps drive the doubling is both what I talked about. We're out of certain elements of what have been a headwind for us, like IBM software costs as we go through the remainder of the time frame between now and the '8 when we talked about Investor Day.

**Speaker 3:** And also just the physics, if you will, of having more and more of our P and L being determined by what we put in versus what we've inherited. And again, there's really good visibility to that because we share both the gross profit dollar book to bill and we share the priced margins, what's going in the backlog every quarter. So very good visibility to cash flow, well positioned for this year, which positions us well for the triple, very well positioned on profit, good visibility to how we get there. And then on revenue growth, as I said earlier, the vectors that drive the bulk of this, Tindral Consult and the Alliance activity continue to grow at the pace that we expect them to. In fact, they could even slow down a bit and we'd still get to growth that we talked about in Investor Day timeframes.

**Speaker 3:** And the overall signings book to bill from last year, well north of one. We expect, again, even if we don't, we expect to have another book to bill year north of one, which is really what determines the overall growth rate. So I think I feel very good about both the visibility and

our ability to execute the triple double single based on where we sit right here.

**Speaker 4:** And Jamie, I'd just add, really makes a lot of sense to point to the slide you did in terms of the margins that we're generating on our signings, because that really is what produces a lot of the visibility into the margin growth that we project, that we're confident we're going to have in the next few years. And in particular, when we look at how we're performing on contracts, our bid versus bid analysis, we continue to operate very close to the pricing that was projected on our signings. And in fact, the trend over the last year or two has been to move even closer to realizing all the profit that was built into our signed margins. You know, originally we were running half a point to a point short, and on the deals over the last year or two, we've been right in line, in some cases slightly ahead of the margins we anticipated. So that's really helpful to our visibility.

**Speaker 2:** Thanks, David. Operator, believe that was our last question, so I'm going to pass the call to Martin to close it out.

**Speaker 3:** Thank you, Laurie. Thanks again, everybody, for joining us today. I am very proud of the global Kinzhal team. Together with our customers and our partners, we're innovating and we're creating new growth opportunities. Our steady progress this quarter continues across all the key growth areas of our business, and our unique transform approach is resonating with customers and delivering value and operational excellence to them.

**Speaker 3:** We have a solid game plan. We are relentless on execution, and I remain very confident in our ability to achieve our financial and operational goals, grow our revenues, expand our margins, and increase earnings, and generate free cash flow. So thanks again for joining us this morning.

**Speaker 1:** Thank you for your participation in today's conference. This concludes the program.

You may now disconnect.